

School Finance

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PAYMENT CALCULATIONS

May Foundation Payment Calculation

The May Basic Formula payment, including Classroom Trust Fund, was calculated using the most current data available as reported by the district to DESE. It is important that the district compare DESE's calculations with those generated by the district. Please call or email School Finance at (573) 751-0357 (webreplyadmsf@dese.mo.gov) with questions or concerns about the district's calculations.

Prior Year (2014-15) Adjustment – Basic Formula

A third recalculation was completed with the May payment. This recalculation was completed using the highest of the 2014-15 actual weighted average daily attendance (WADA), the 2013-14 actual WADA, or the 2012-13 actual WADA. Any adjustment to data will impact each district in the state since DESE is redistributing the 2014-15 fixed dollars. The proration percentage changes are:

June 2015	0.96869553
December 2015	0.96473924
February 2016	0.96439971
May 2016	0.96439251

Prior year correction payment amounts can be viewed by going to the payment transmittal for May 2016 and clicking on the dollar amount of the district's Basic Formula, Classroom Trust Fund, Transportation, and Small Schools Grant payment. These numbers are a hyperlink to a detail page which displays the amount of payment contributed to the current year payment as well as the prior year correction amount.

State Adequacy Target (SAT) and Threshold Recalculations

Following is the information regarding the State Adequacy Target (SAT) and Threshold Recalculation that was provided in the Administrative Memo which was posted on May 11, 2016.

On May 5, 2016, the Missouri General Assembly voted to override Governor Nixon's veto of Senate Bill (SB) 586. This bill has an emergency clause and will become effective on July 1, 2016. This legislation restored the five percent (5%) cap on growth per the recalculation of the State Adequacy Target (SAT) that was removed by the General Assembly in 2009.

Based on the bill language, the SAT calculated for FY17 and FY18 is now \$6,241. While the SAT is calculated at this level, full funding of the foundation formula is not projected for FY17 and, therefore, the SAT will remain at an adjusted level through the calculation process. In order to comply with SB586, it was necessary to also recalculate the thresholds. The changes in the threshold levels are the result of a change to the schools within the Performance School aggregate that fall within the top and bottom five percent (5%) that are excluded from the calculation as compared to prior calculations. The revised data that will be used in the distribution of formula funds in FY17 and FY18 are as follows:

State Adequacy Target	\$6,241
Free and Reduced Lunch (FRL)	36.12%
Special Education (IEP)	12.16%
Limited English Speaking (LEP)	1.94%

It is advisable that districts review the impact of lowering the threshold percentages and determine if it might be in the district's best interest to be paid on an estimated average daily attendance (ADA) in FY17. While it is still too early to enter an estimated ADA, it may be beneficial to analyze data now and initiate communications with your School Finance Consultant with questions you may have. The department is currently working on a tool to assist districts when analyzing the possibility of estimating an ADA and will forward this tool to districts when it is complete.

Questions regarding the SAT and threshold recalculations and estimating an ADA for FY17 should be directed to the School Finance Section, 573-751-0357.

AUDIT REPORTS

2015-16 Audit Schedule of Selected Statistics

A copy of the 2015-16 Schedule of Selected Statistics that is to be included in the 2015-16 audit report is available on the web at <http://dese.mo.gov/financial-admin-services/school-audits>. The district should print and keep a copy as a reference when it reviews the 2015-16 audit report prior to submitting the audit report to DESE. The district is encouraged to compare the information in the audit on this Schedule to the data the district submitted through MOSIS, on Core Data, the Annual Secretary of the Board Report, or other reports and resolve any differences prior to submitting the audit report.

Audit Requirement Changes

On December 19, 2014, the Federal Government combined the OMB Circulars and issued new guidance for federal awards, OMNI Circular 2 CFR Part 200.

This guidance became effective on July 1, 2015 (2015-16 school year) for school districts and charters and the **FY16 (that covers the 2015-16 school year) audit reports**. A few of the major changes in this new guidance relating to audit engagements are listed below:

1. The amount of federal expenditures required to obtain a single audit has increased to \$750,000 from \$500,000. (§200.501)
2. Additional clarification on the auditor selection process for districts and charters. If the District's or Charter's board policy is more restrictive than this new guidance use the policy, but if it is not, use this policy for auditor selection.

In procuring audit services, the auditee must follow the procurement standards prescribed by the Procurement Standards in §§ 200.317 Procurement by states through 20.326 Contract provisions of Subpart D-Post Federal Award Requirements of this Part, or the FAR (48 CFR Part 42), as applicable. When procuring audit services, the objective is to obtain high-quality audits. In requesting proposals for audit services, the objectives and scope of the audit must be

made clear and the non-Federal entity (the district/charter) must request a copy of the audit organization's peer review report which the auditor is required to provide under GAGAS (Generally Accepted Government Auditing Standards). Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price.

Whenever possible, the auditee must make positive efforts to utilize small businesses, minority-owned firms, and women's business enterprises, in procuring audit services as stated in § 200.321 Contracting with small and minority businesses, women's business enterprises, and labor surplus area firms, or the FAR (48 CFR Part 42), as applicable. (§200.509(a))

3. The auditee must also prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. (§200.510(b))
4. Corrective Action Plans for audit findings. At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons (§200.511(c)).

OTHER IMPORTANT REMINDERS AND TOPICS OF INTEREST

2015-16 Annual Secretary of the Board Report (ASBR) Updates

Several changes have been made to the 2015-16 ASBR. These updates are listed on the School Finance web page at <http://dese.mo.gov/financial-admin-services/school-finance/annual-secretary-board-report-asbr>.

Professional Development (1%) Money

Section 160.530.1, RSMo, requires districts to spend one percent (1%) of the Basic Formula monies (based on Line 17B of the district's June basic formula calculation) for professional development committee expenditures. A minimum of seventy-five percent (75%) of one percent (1%) of the current year's Basic Formula current apportionment must be spent in the year received for purposes determined by the Professional Development Committee and identified in the professional development plan in relation to a school improvement plan. This is completely separate from professional development that may be required by other programs such as title programs. Expenditures should be recorded to Function Code 2214. Any portion of the other twenty-five percent (25%) of the one percent (1%) not expended during the year must be shown as a part of the restricted fund balance on June 30.

Districts can locate a projection of the 1% PDC expenditure on line 17 C of their Basic Formula Calculation. The final required PDC expenditure amount is calculated as of the June payment.

Lease/Rental Reminders

Several questions have been raised recently regarding a district taking title to property at the end of a lease/rental contract or regarding students paying a nominal fee to take possession of property from a district that the district has been leasing/renting. Following are some important points to remember when leasing/renting property:

- Lease/rental amounts are paid from the General (Incidental) Fund.
- Included in current operating costs.
- District **will NOT take title** to property. In addition, if a district is leasing/renting property for a student the student should not be allowed to pay the district a nominal fee to take possession of the property since the district doesn't own the property. If this type of arrangement is going to occur the student would need to purchase the equipment from the company that the district is leasing/renting the property from since they actually own the property.
- If district buys the item at the end of the rental and takes or assumes title to real property, the full amount expended for the real property will be deducted from the state aid payment in the year following the transfer of title to the district (per Section 177.088.11, RSMo).

Teachers Fund – Salary and Benefits

The requirement in Section 165.011.3, RSMo, to pay for employee benefits for certificated staff from the Teachers Fund has raised awareness of what fund to use to pay certain salaries and benefits. Being a member of the Public School Retirement System instead of the Public Education Employee Retirement System is not the determining factor of payment from the Teachers Fund. The nature of employment and required certification for the employment must be considered. The following list provides general guidance on the salaries and benefits to be paid from the Teachers Fund:

- Full-time, contract, and prorated portions of the costs for work performed by teachers (defined in Section 163.011(19), RSMo) who are considered to be in positions of a permanent nature;
- Instructional related supplemental duties included with the regular year contractual duties or required of the position;
- Part-time teachers who work less than full-time and perform work in positions of either a temporary or permanent nature;
- Certificated instructional aides or paraprofessionals employed in an instructional related position; and
- Benefits associated with the above described employees.

Salaries and benefits of employees with non-instructional duties are paid from the Incidental Fund. This includes the salary and benefits for a non-instructional supplemental assignments, such as:

- A teacher driving a bus route each day;
- An instructional aide or paraprofessional employed in an instructional related position that does not have a teaching certificate;
- A teacher who works as a maintenance worker part-time;
- A teacher who collects money at the gate during athletic events.

While it is not possible to list all the employment arrangements throughout school districts, this information provides a framework for the district to determine the appropriate accounting fund for payment of salaries and benefits.

For questions regarding which fund is appropriate to pay salaries and benefits from for certain types of staff contact School Finance at 573-751-0357. For questions regarding which retirement system is appropriate for certain types of staff please contact Public School & Education Employee Retirement Systems of Missouri at 573-634-5290 or toll free at 800-392-6848.

Non-Certificated Educators – Attendance Hours Adjustment

Attendance hours for any educator without a valid teaching certificate will be disallowed for state aid payment purposes. State law requires all school district personnel who are responsible for working with students in an instructional or supervisory capacity during the school day to have a valid Missouri teaching certificate. This applies to in-school suspension teachers as well as those supervising study hall, recess, virtual courses taken in school, or other computer based instructional programs taken in school. A substitute certificate meets the requirement of a certificate when the employee is functioning as a substitute teacher in the absence of the teacher-of-record or is employed as the teacher-of-record.

A report is available on the Data Collection web application system which will identify educators within the district that do not have a valid certificate on file with the Department of Elementary and Secondary Education. To access this report in the Data Collection system, go to the left hand navigational tree and select Reports, then Special Reports, then Staff Certification.

The Department will prepare a list of educators meeting the following criteria:

1. did not hold a valid Missouri educator certificate for the regular school year teaching assignment or;
2. has a certificate pending but did not initiate the required background check.

School districts notified they have an educator(s) that meets the above criteria must provide School Finance with the attendance hours by building and by grade for all students who were under the supervision of those educators since the educator did not have a valid certificate. These hours of attendance will be excluded from the total hours of attendance for the school year.

Attendance Reporting

For guidance regarding various attendance reporting scenarios please refer to the School Finance website at <http://dese.mo.gov/financial-admin-services/school-finance/finance-topics-procedures>.

Extended School Year (ESY)

Extended school year (ESY) programs and regular approved summer school programs are separate and distinct programs. An ESY program is exempted from the one hundred twenty (120) clock hours of instruction for a minimum summer offering. However, LEAs may use ESY hours in conjunction with regular summer school hours to meet the minimum 120 clock hours for the minimum summer offering. Summer school hours and ESY hours will be collected in separate fields in the August MOSIS submission. ESY hours that are outside of the timeframe and days of summer school must be reported under the ESY hours filed in the August Enrollment and Attendance File, but ESY hours running in conjunction can be reported as either ESY hours or Summer School Hours.

Pupil transportation costs for extended school year programs for students with disabilities are eligible for state transportation funding. Students with disabilities route miles should be included on the Application for State Transportation Aid under Section III-Mileage Data, Eligible Route Miles, Students with Disabilities Approved Miles. If disabled and non-disabled students are transported on the same route, only the miles for students with disabilities should be reported as approved route miles. The difference between the students with disabilities approved route miles and actual miles traveled must be reported as disapproved route miles on the Application for State Transportation Aid under Section III-Mileage Data, Ineligible Miles. Miles should be reported on the Application for State Transportation Aid in the same year as the costs are reported on the Annual Secretary of the Board Report (ASBR).

SCHOOL GOVERNANCE

Qualified Zone Academy Bonds (QZAB)

Congress has passed the re-authorization of the Qualified Zone Academy (QZAB) program. DESE currently has \$7,244,000 of authorization for the 2016 allocation.

As a result an application period for QZAB will begin on Monday, May 30, and will end at 4:00 pm on Friday, June 24, 2016. The application can be accessed at <http://dese.mo.gov/financial-admin-services/school-governance/qualified-zone-academy-bond>. There is a Qualified Zone Academy Bond Q & A describing QZAB's and the application process that can be found at <http://dese.mo.gov/sites/default/files/sf-QZAB-QAs-8-2013.pdf>. If you have questions, contact Roger Dorson at (573) 751-0357 or roger.dorson@dese.mo.gov.

Family Education Rights and Privacy Act (FERPA)

On many occasions school district officials have questions directed to them regarding data privacy and the Family Education Rights and Privacy Act (FERPA). A good source of information regarding these two areas can be found on the Private Technical Assistance Center (PTAC) website. The PTAC website can be accessed at <http://ptac.ed.gov/>.

Transfer Timing Amendments to Existing Direct Deposit Agreements

During 1995 the Missouri Health and Educational Facilities Authority (MOHEFA) was charged with developing guidelines for and the administration of the Direct Deposit Program, which provides strong credit ratings for Missouri school districts. Since the inception of this arrangement school districts have not been required to obtain individual bond ratings prior to the issuance of General Obligation Bonds but rather have been able to enjoy the benefit of utilizing the bond rating for the State of Missouri resulting in the reduction of front end issuance costs to school districts. In addition, long term savings have been achieved by this arrangement resulting in an approximate twenty-five basis points reduction below what would have been market. It has been estimated that since the initiation of this Direct Deposit Program that total savings to Missouri schools has exceeded \$200 million.

While this program has been of tremendous benefit to school districts, the rapid change in the economic climate was becoming problematic for some school districts, especially those who rely more heavily on local property tax revenues. The original agreement called for bond payment amounts to be withheld from state payments during the months of March through December with no withholding during January and February. Since some district balances are at their lowest levels during the ending month of each calendar year cash flow issues began to arise.

Instead of 10 monthly transfers occurring in March through December it is now possible to skip either October/November or November/December and push the final 2 month transfers into January and February. This flexibility could ease cash flow issues for districts and possibly eliminate the need for some districts to borrow funds until local tax revenue is received.

If this is something that is of interest to your district please contact Roger Dorson, MOHEFA, or your district's bonding advisor for more information about the process.

SCHOOL TRANSPORTATION

2015-16 State Transportation Aid Calculation

The fiscal year 2015-16 state transportation aid calculation is available through the School Finance website at <http://dese.mo.gov/financial-admin-services/school-finance> under Financial Reports, Payment Transmittals. Input County-District number, the Payment Transmittal is then displayed. Click on the revenue name "Transportation" on the Payment Transmittal to access the transportation aid calculation.

This is the eighth live state transportation calculation made for the current year. The calculation is based on 2014-15 school year data submitted by the district on the state transportation aid documents included in Part IV of the Annual Secretary of the Board Report (Application for State Transportation Aid, School Bus and Facility Depreciation Schedules).

The percent of reduction to the calculated entitlement computed for the May 2016 calculation is shown below. This reduction percentage represents the amount the entitlement exceeded the appropriation and will fluctuate from month to month as revisions are made to individual school district data. The percent of reduction and the A and B factors are also reflected on each district's Summary Transportation Report.

The percentage reduction and the A and B factors are as follows:

	<u>Reduction Factor</u>	<u>A Factor</u>	<u>B Factor</u>
May 2016	64.873477	3.439188	-1.401382

National School Bus Safety Week

National School Bus Safety Week is October 17-21, 2016. This Year's Theme is "Bully Free Zone". School Bus Safety Week posters can be obtained from the National Assn. of Pupil Transportation at (800) 989-NAPT.

Certified School Bus Driver Instructor Training

The Certified School Bus Driver Instructor recertification training will be held in Columbia on July 22, 2016. The Certified School Bus Driver Instructor workshop is scheduled for July 27-29, 2016, in Warrensburg. Registration forms for this training are available at <http://dese.mo.gov/financial-admin-services/school-transportation/certified-bus-driver-instructors>, also, a listing of all current Certified School Bus Driver Instructors can also be viewed at this site.

Who must have a School Bus (S) Endorsement?

State statutes require drivers of any vehicle (including a personal vehicle) who are being compensated for transporting students to/from ANY school event/program to have an "S" endorsement on their license.

District employees (i.e., teachers, coaches, administrators, secretaries, school nurses, janitors, etc.) who transport students as an "incident" to employment (i.e., student illness, etc.), are required only to have a valid Class F operator's license.

District employees who are hired knowing they will be transporting school children as part of their job (i.e., regularly scheduled field trips, school sponsored activities, etc.) must have a Class E (for hire) license with a school bus (S) endorsement. Vehicles must weigh less than 26,001 lbs. and be capable of transporting 15 or less including the driver.

In addition, parents or individuals who enter into a contract with the district to transport students in a district owned/district leased vehicle and who are paid a lump sum amount, an hourly wage, or more than the AAA cost per mile must have a Class E license with an S endorsement. These parents or individuals must agree to provide transportation in a safe, inspected, insured, licensed vehicle.

Note: Any vehicle that is capable of transporting 11 or more including the driver must be a yellow school bus that complies with Missouri Minimum Standards for School Buses.

Deputy Commissioner's Comments

Revenue Trends YTD

	YTD as of <u>April FY15</u>	YTD as of <u>April FY16</u>	Revenue <u>Change</u>	<u>% Change</u>
Individual Income Taxes	\$5,760,000,000	\$5,970,000,000	\$210,000,000	3.65%
Sales & Use Taxes	\$1,650,000,000	\$1,720,000,000	\$70,000,000	4.24%
Corporate Inc. & Franchise	\$442,500,000	\$381,400,000	(\$61,100,000)	-13.81%
Other Collections	\$340,200,000	\$341,500,000	\$1,300,000	0.38%
Increase in Revenue YTD			\$220,200,000	2.69%
Refunds (YTD)	\$975,900,000	\$1,000,000,000	\$24,100,000	Refund <u>Change</u> 2.47%
(A decrease in refunds enhances Net Revenue. An increase in refunds diminishes Net Revenue.)				
Actual Net Revenue Status YTD	\$7,216,800,000	\$7,412,900,000	\$196,100,000	2.72%

School District Trust Fund (Proposition C) YTD

Amount Paid to Districts for Month	<u>May Prior Year</u>	<u>May Current Year</u>	<u>% Change</u>
	\$60,307,944	\$81,765,529	20.86%
Amount Paid to Districts YTD	<u>May Prior Year</u>	<u>May Current Year</u>	
	\$758,862,318	\$802,894,855	5.80%
Appropriation	\$854,000,000	(Percentage of Appropriation Paid YTD 94.02%)	

Gaming Revenue Trend

	<u>April Prior Year</u>	<u>April Current Year</u>	<u>% Change</u>
Change of Month	\$27,003,556	\$25,912,641	-4.04%
Total Gaming Proceeds to Education	\$265,971,528	\$268,448,147	0.93%
Gaming Revenue Appropriated	\$343,456,910		

FY16 Classroom Trust Fund Distribution Paid YTD Through Current Month's Payment: *\$273,140,351 (79.52% of Appropriation)

*(Includes \$14,204,297 unclaimed Lottery funds, \$13,466,456 carryover Gaming funds and current month's revenue available at time of distribution.)

1. **General Revenue:** The data above suggest the slowing of Missouri's rate of General Revenue from the major sources listed. While General Revenue receipts are ahead of last year, the numbers now are only slightly ahead of the growth prediction used to craft the FY16 budget. Hopefully as we move through the final two months of the fiscal year we will see a greater upward trend which is needed to better position the upcoming new fiscal year.
2. **Proposition C Revenue:** Distribution of revenue for May was sufficient to make it highly likely that the total appropriation of \$854 million, which includes the supplemental appropriation that was recently signed by the Governor, will be distributed for FY16. This will be the record distribution for this source of revenue that was passed by Missouri voters in 1982. Hopefully, that trend will continue in FY17.
3. **Gaming Revenue:** Gaming Revenues for April showed a slight decline as compared to the same month last year, but are still slightly ahead for the year.
4. **Lottery Revenue:** As was reported last month, Lottery Revenues available for distribution in the final two months of this fiscal year will continue to be increased. As a result, there will be sufficient funds available to meet the level of appropriations from this source that flows through the formula for FY16. A few districts updated their estimates

for average daily attendance prior to the May payment, which resulted in an increase of seven hundred eighty-three (783) payment weighted average daily attendance (WADA) compared to April. That increase does impact the final SAT for FY16. Last month it was stated that the final State Adequacy Target (SAT) for FY16, depending upon the final payment WADA, could be in the vicinity of \$6,145 - \$6,150. As a result of the increased WADA due to the May adjustments, the projected final SAT for June has been lowered to \$6,140 - \$6,145.

Reflections

I am sure by now most of you know that Dr. Roger Dorson has been selected to assume the position of Deputy Commissioner for Financial and Administrative Services. While I knew Roger when he and I were both practicing superintendents, our geographic proximity during our years of service did not place us in common territory too long. It has been a genuinely wonderful experience to get to know him better as we've worked closely during the past six years. Our shared passion for assuring quality services to the students of Missouri has been the common denominator that has enabled us to work together so well. As he has demonstrated through his dealing with most of you, he is a person of impeccable integrity and other professional qualities that we value so much. My best wishes to Roger as he assumes his new position on July 1.



Ronald Lankford

School Finance

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